

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2018-318-E

In the Matter of)	REBUTTAL TESTIMONY OF
)	JOHN PANIZZA FOR
Application of Duke Energy Progress, LLC for)	DUKE ENERGY PROGRESS,
Adjustments in Electronic Rate Schedules And)	LLC
Tariffs and Request for an Accounting Order)	

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
2 **CURRENT POSITION.**

3 A. My name is John Panizza, and my business address is 550 South Tryon
4 Street, Charlotte, North Carolina. I am employed by Duke Energy Business
5 Services LLC (“DEBS”) as Director Tax Operations. DEBS provides
6 various administrative and other services to Duke Energy Progress, LLC
7 (“DE Progress” or the Company) and other affiliated companies of Duke
8 Energy Corporation (“Duke Energy”).

9 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY AND**
10 **EXHIBITS IN THIS PROCEEDING?**

11 A. Yes, I did.

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. The purpose of my rebuttal testimony is to respond to Nucor witness Billie
14 S. LaConte’s recommendation that the federal unprotected property-related
15 component of the Company’s proposed excess deferred income tax
16 (“EDIT”) Rider (the “EDIT Rider”) should be modified to return excess
17 deferred taxes more quickly.

18 **Q. PLEASE BRIEFLY DESCRIBE THE COMPONENTS OF THE**
19 **COMPANY’S PROPOSED EDIT RIDER.**

20 A. As outlined in my direct testimony and that of Company witness Laura
21 Bateman, the EDIT Rider consists of the following components:

22 (1) Federal EDIT – Protected: Pursuant to IRS normalization rules,
23 protected EDIT, which is related to the Company’s investment in

1 property, plant, and equipment (“PP&E”), is required to be flowed
2 back over the remaining lives of the property giving rise to the
3 deferred tax balance. Specifically, protected EDIT may not be
4 returned to customers any faster than allowed by the Average Rate
5 Assumption Method (“ARAM”).

6 (2) Federal EDIT – Unprotected, PP&E related: Like protected EDIT,
7 this bucket is also property-related and the Company proposes to
8 flow back these funds over a period that matches the lives of the
9 underlying assets. Though the assets in the unprotected PP&E
10 related EDIT bucket have a longer average life, DE Progress has
11 proposed a shorter, 20-year flowback period.

12 (3) Federal EDIT – Unprotected, non-PP&E related: DE Progress
13 proposes to flow back unprotected EDIT that is not related to the
14 Company’s investment in PP&E over a period of five years.

15 (4) Deferred Revenue: The Company proposes to flow back deferred
16 revenue, net of deferred balances related to the Distributed Energy
17 Resource Program (“DERP”), over five years.

18 (5) North Carolina EDIT: As explained by Witness Bateman, the
19 Company began to return amounts in this bucket to customers in DE
20 Progress’s last rate case and is proposing to refund the full remaining
21 balance to customers in Year 1 of the EDIT Rider.

1 **Q. HOW DOES WITNESS LACONTE SUGGEST THAT THE**
2 **COMPANY’S PROPOSED EDIT RIDER BE MODIFIED?**

3 A. Witness LaConte proposes the following modifications:

- 4 • Unprotected property-related EDIT should be returned over five years;
- 5 • DE Progress should amortize and return deferred revenues over two
- 6 years; and
- 7 • DE Progress should remove the collection of DERP costs from the
- 8 EDIT Rider.

9 **Q. WHICH OF WITNESS LACONTE’S RECOMMENDATIONS DOES**
10 **YOUR REBUTTAL TESTIMONY ADDRESS?**

11 A. My rebuttal testimony only addresses Ms. LaConte’s recommendation that

12 federal unprotected property-related EDIT should be returned over five

13 years. Ms. LaConte is the only intervenor witness to make this

14 recommendation. Company witnesses Bateman and Sullivan respond

15 further to Ms. LaConte’s recommended modifications to the EDIT Rider in

16 their rebuttal testimony.

17 **Q. WHY DOES MS. LACONTE RECOMMEND REDUCING THE**
18 **COMPANY’S PROPOSED FLOWBACK PERIOD FOR**
19 **UNPROTECTED PP&E RELATED EDIT?**

20 A. Witness LaConte’s stated reason for reducing the flowback of unprotected

21 PP&E related EDIT to five years, is that because protected EDIT (under

22 IRS rules) will be flowed back over 27 years, all unprotected EDIT

23 (regardless of whether it is related to plant) should be refunded over as short

1 a time period as reasonably possible – which she deems to be no more than
2 five years.

3 **Q. DOES IT MAKE SENSE FOR UNPROTECTED PROPERTY-**
4 **RELATED EDIT TO BE RETURNED OVER 5 YEARS?**

5 A. No. As I explain in my direct testimony, protected and unprotected
6 property-related deferred taxes are no different except for the fact that they
7 come from two places in the Internal Revenue Code and the statute protects
8 one but not the other. Returning unprotected PP&E related EDIT over the
9 remaining book life of the property (similar to protected PP&E related EDIT
10 under the ARAM method) tracks and provides symmetry between the
11 reductions in plant-related EDIT with the period of depreciation of the
12 underlying assets to which EDIT relates. The 20-year period is appropriate
13 because it is tied directly to the underlying assets that created the deferred
14 tax balances which became EDIT when the Tax Act dropped the corporate
15 tax rate to 21 percent. Using a five-year flowback period for unprotected
16 plant-related EDIT is arbitrary and does not align with the life of the capital
17 assets being depreciated.

18 **Q. HAS THE COMMISSION ADDRESSED THIS ISSUE BEFORE?**

19 A. Yes. In rejecting a similar proposal to Ms. LaConte's which would have
20 required a utility to return unprotected property-related EDIT over five
21 years, this Commission concluded that adopting a five-year flowback period
22 "would create a significant mismatch between the amortization of the

1 unprotected EDIT and the actual depreciation of the related assets.”¹
2 Instead, “applying the ARAM method to both protected and unprotected
3 plant-related EDIT [similar to what the Company is proposing in this case]
4 results in uniformity, ease of administration, and sound regulatory
5 economics including intergenerational equity and rate stability to current
6 and future customers.”² I completely agree.

7 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

8 A. Yes, it does.

¹ See Order No. 2018-804, Docket Nos. 2017-207-E, 2017-305-E, and 2017-370-E (SCPSC Dec. 21, 2018), p. 54.

² *Id.*